SARASWATI COMMERCIAL (INDIA) LIMITED

CIN: L51909MH1983PLC166605

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ASSET LIABILITY MANAGEMENT POLICY

(Effective from 10.02.2016)
(Reviewed On 30.01.2019)

INTRODUCTION

Saraswati Commercial (India) Limited (Saraswati) is an Investment Company. With the newly introduced concept of Multiple NBFCs it is categorized as a Systemically Important Non-deposit taking NBFC. The company is engaged in the business of investment and trading in shares and securities & lending activities.

There is a statutory obligation as RBI as the regulating agency for NBFCs has stipulated that NBFCs should have an effective Asset-Liability Management (ALM) system as part of their overall system for effective risk management.

OBJECTIVE AND SCOPE

With reference to the Direction, 2016 issued by RBI's the NBFCS shall address the risks in a structured manner by upgrading their risk management and adopting more comprehensive Asset-Liability Management (ALM) practices. ALM is concerned with risk management and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity and interest rate equity and commodity price risks of major operators in the financial system that shall be closely integrated with the NBFCs' business strategy. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks.

The ALM process rests on three pillars:

- **ALM Information Systems**
  - Management Information Systems
  - Information availability, accuracy, adequacy and expediency

- **ALM Organization**
  - Structure and responsibilities
  - Level of top management involvement

- **ALM Process**
  - Risk parameters;
  - Risk identification;
  - Risk measurement;
  - Risk management;
  - Risk policies and tolerance levels.

ASSET- LIABILITY MANAGEMENT COMMITTEE (ALCO)

Asset- Liability Management will be overseen by a Committee consisting of four Members including the following:

- Chief Executive Officer (CEO);
- Non-executive Independent Director;
- 2 Non-executive Director (as per the discretion of the Board);

Quorum: Any two members present shall constitute the quorum.

Periodicity of Meeting: The Member-Secretary will arrange for convening the meetings of ALCO as and when needed depending upon the necessity.

Process:

The scope of ALM function can be described as follows:

- Liquidity risk management;
- Management of market risk;
- Funding and capital planning;
- Profit planning and growth projection;
- Forecasting and analyzing 'What if scenario' and preparation of contingency plans.

Minutes of the meeting will be prepared and preserved.

Liquidity Risk Management:

ALCO will deliberate on the ability of the Company to meet its maturing liabilities as they become due and ensure against any adverse situation from developing. ALCO will review on an ongoing basis how the situation is likely to develop under different assumptions. For measuring and managing net funding requirements, ALCO will use as a standard tool the maturity ladder and calculation of cumulative surplus at selected maturity dates. ALCO will use the same time buckets suggested by RBI (shown below) for measuring the net funding needs.

i. 1 day to 30/31 days (1 month);
ii. Over 1 month to 2 months;
iii. Over 2 months to 3 months;
iv. Over 3 months to 6 months;
v. Over 6 months to 1 year;
vi. Over 1 year to 3 years;
vii. Over 3 to 5 years;
viii. Over 5 years

Interest Rate Risk:

RBI has given operational flexibility to NBFCs for pricing most of the assets and liabilities. Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The changes in interest rates affect NBFCs in a larger way.

The interest sensitive assets and liabilities will be clubbed into the following buckets for ascertaining the Gap in individual buckets and the cumulative Gap.

The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

i. within the time interval under consideration, there is a cash flow;
ii. the interest rate resets/reprices contractually during the interval;
iii. dependent on RBI changes in the interest rates/Bank Rate;
iv. it is contractually pre-payable or withdrawal before the stated maturities.

The Gaps may be identified in the following time buckets:

i. 1 – 30/31 days (1 month);
ii. Over 1 month to 2 months;
iii. Over 2 months to 3 months;
iv. Over 3 months to 6 months;
v. Over 6 months to 1 year;
vi. Over 1 year to 3 years;
vii. Over 3 to 5 years;
viii. Over 5 years;
ix. Non-sensitive.

The company shall set prudential limits on individual Gaps with the approval of the Board/Management Committee. The prudential limits shall have a relationship with the Total Assets, Earning Assets or Equity. The Company may work out Earnings at Risk (EaR) or Net Interest Margin (NIM) based on their views on interest rate movements and fix a prudent level with the approval of the Board/Management Committee. For working out EaR or NIM any of the current models may be used.